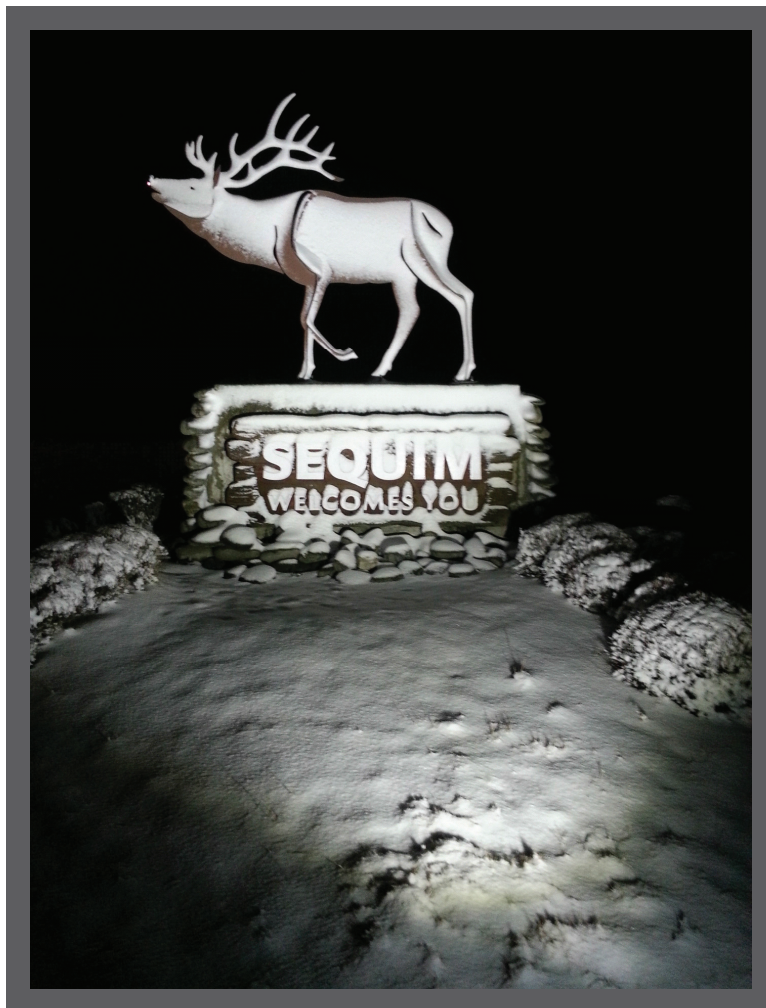


City of Sequim 2015 Budget

Introduction



City of Sequim 2015 Proposed Budget City Manager's Budget Message

Honorable Mayor, City Council and Sequim Residents:

I am pleased to present the City's 2015 Proposed Annual Budget, the annual financial roadmap for the City of Sequim with projected total expenditures of \$37.9ml.

Adoption of the Annual Budget is the most important policy action of the City Council each year. The document serves as a means to allocate resources to a variety of City programs and priorities and to protect the community's physical security, enhance the community's quality of life, and maintain and develop the City's facilities and infrastructure.

This policy document represents our continued commitment to prudent fiscal management, effective service delivery and to providing our citizens with an affordable quality of life. Once adopted by the Council the budget establishes the direction for all City government programs and services for the coming year. It represents the consensus of Council direction and staff recommendations on how to best accomplish Council goals and respond to the highest priorities of community needs.

I have based the development of the proposed budget on the City Council vision and priorities that were adopted in 2014. Our budget preparation was also guided by the adopted City Council financial policies and the following budget principles:

- Balance the budget, current revenues and current expenses and maintain acceptable reserve levels;
- Continue to implement City Council top priorities;
- Minimize impact of any tax and fee increases on residents and ratepayers;
- Make decisions in the 2015 budget that continue to reset the City's financial plan and creates a foundation to maintain a balanced budget in future years;
- Maintain the highest quality of services.

2015 Highlights:

The major capital project of 2015 will be the completed construction of the new Civic Center. The current 2014 Budget and the Proposed 2015 Budget are strained by the overlap of current rent and

maintenance of facilities still needed with the debt service requirements already in effect for the new facility. This is a common challenge with many such multi-year projects. The new Civic Center will serve the City for decades to come and will create efficiencies of having 50 or more City employees under one roof for the first time in history.

The budget is also focused on the maintenance of current service levels within the constraints of our resources. The economic growth continues at a very slow pace and is anticipated to continue at that pace for several years into the future. The prior year projections of sales tax growth have been a challenge to achieve but we should be looking at real dollar growth in that area in the next couple of years. Sales tax is one of our largest single general revenue sources and the only one that grows or shrinks with the local economy. Utility Tax revenues continue to be strong with year over year growth but General Fund allocations have been affected in 2014 and 2015 due to the effect of the size of the Civic Center project and its current requirement needs on staff overall. Property Tax revenues remain steady but with limited new construction and a statutory 1% limit on increases they fail to keep pace with inflation. General Fund Revenues are budgeted relatively flat (down 1.5%), as are expenditures (down .6%), from 2014 budget.

General Fund

Proposed General Fund revenues and expenditures for 2015 are projected relatively flat, or down 1.5% and .6%, respectively. Sales tax revenues are returning to 2010 levels. General Fund revenues projected for 2015 are approximately \$8.4 million and are balanced with expenditures at \$8.4 million. The General Fund budget for 2015 is status quo as to 2014 with the exception of decreases in funding for equipment reserves and the funding of the Civic Center construction.

General Fund Highlights:

- Each department was asked to carefully review its budget and to budget operating expenditures at a 3% reduction. Combined with 2014, which included a 5% reduction, this totals 8% over the past two years;
- Existing labor contracts provide for nominal increases and for movement within existing ranges;
- Contributions to the general governmental Equipment Reserve Fund have been decreased in 2015 to help mitigate the overlapping costs of the Civic Center
- Conservative attainable revenue estimates have been projected in all categories
- Allocation costs of the General Fund have been applied throughout the organization but have been revised lower in 2014 and will be so in 2015.

Fund Balance and Reserves

The City Council has adopted a fund balance policy for the General Fund and Street Operations that provides guidelines for our long-range financial plans. The proposed 2015 Budget provides for projected fund balances that meet those guidelines. The projected fund balance at the end of 2015 is \$1,907,962 for the General Fund and Street Operations (\$1,753,431 + \$154,531). This balance plus \$303,701 estimated at year end 2015 for the Equipment Reserve Fund continues as a strong financial position, meeting our policy levels.

Personnel Services

Since the City is primarily a service business, salaries and benefits paid to the City's employees represents 46% of total operating expenses. In the General Fund employee salary and benefit costs represent 65% of our total expenses. The chart below shows the City's historical staffing costs and reflects the 2015 changes.

	Actual 2012	Actual 2013	Forecast 2014	Budget 2014	Budget 2015	2015 - 2014 %
<i>Budgeted Staff (FTE, not including Council)</i>	73.24	74.91	74.91	76.29	76.29	0.0%
OFM Census (2015 estimated)	6,795	6,855	6,910	6,910	6979	1.0%
Employees per 1000 Population	10.8	10.9	10.8	11.0	10.9	-1.0%
Salaries	\$4,848,270	\$4,813,463	\$5,153,461	\$5,118,573	\$5,209,743	1.8%
Benefits	\$1,848,755	\$1,847,292	\$2,037,088	\$2,111,629	\$2,200,043	4.2%
Total Comp	\$ 6,697,025	\$6,660,755	\$7,190,549	\$7,230,202	\$7,409,786	2.5%
Benefits as % Total Comp	28%	28%	28%	29%	30%	0.5%
City-Wide Operating Budget	\$13,459,304	\$14,314,225	\$14,608,621	\$15,233,362	\$16,067,589	
Total Comp as % Operating Budget	49.8%	46.5%	49.2%	47.5%	46.1%	-1.3%

The increase in the benefits category is the result of health care increases and PERS retirement increases which are offset by moderately growing revenues. The increase in total City-wide compensation costs are projected to increase by 2.5%. The proposed staffing per thousand of the population remains steady over the last five years.

The salaries and benefits for the bargaining units reflect the 2015 provisions negotiated in contracts approved by the City Council. The agreement with Sergeants and Police Officers expire at the end of 2015 and the new Non-Uniformed contract will expire at the end of 2018.

Although our non-union employees salaries are performance based and do not include "step increases" the proposed budget includes similar salary increases for these employees. Approximately 1.0% additional has been included for this group.

As Council is aware, the cost of benefits has increased at an unsustainable rate over the past few years. Unfortunately, the City does not control state mandated increases in worker's compensation rates and retirement contributions. Continued strain on City expenditures includes year over year double digit increases in PERS and L & I rates at 20% and 11% respectively. Health Insurance, Utilities and other operational costs also continue to increase well over CPI levels for the area.

Transition in Leadership

The 2014 Fiscal Year and the next several years will mark a significant transition in Leadership positions in the organization. The expectation through 2018 is that nearly 2/3rds of the senior staff will retire or move on to other professional opportunities. Budgetary provisions have been included in the 2015 Budget for the anticipated vacancies for that year and we will consider options as set forth in our succession planning processes developed by each section of our operations.

Utilities

In 2013 we commissioned master plan updates for our Water and Sewer systems and a study of utility rates that indicated the need for annual revenue increases of 4%.

The proposed budget includes the rate increases and implementation of rate structure changes to allocate the proposed increases in an equitable and consistent fashion. These rate increases, while minimal, are important to maintain the financial health of our utility operations as well as to meet our current and future debt service requirements and maintain our target reserve levels. Without revenue increases, we are not able to transfer the full amount we normally transfer from our net revenue from operations to our capital accounts (Restricted Funds). We propose to continue a low income discount policy which reduces utility bills for those who qualify for the rate reduction.

The debt service requirements for the Sewer and Water Funds respectively are \$745k and \$115k next year. Projects are proposed both for ongoing and major repair and replacement. Total capital project costs for the Sewer Fund are \$1.5ml and for the Water Fund \$1.09ml. The individual projects are discussed in the capital projects and utilities section of the detail budget.

An interlocal agreement for Sewer Services is expected to bring in almost \$1ml in capital funds for the Sewer Utility before the end of 2014 or at the beginning of 2015.

Long-Range Financial Plan

Although the Annual Budget adopts the City's financial plan for one year, it is important that the City Manager and Council make the Annual Budget decisions in the context of the City's long-range financial plan. Council will review the City's plan in October of 2014. The City's plan is very cognizant of the ongoing revenues and the continued escalation of costs. The model projects our revenues and expenditures for the next six years so decisions on the annual budget can be based upon these long-range trends and projections. The plan is a key element in the development of operating and capital improvement plans for critical projects now and in the future.

Community Requests for City Funding

Each year as a part of the budget process the City considers requests for service contracts from community and intergovernmental agencies. The City also contracts with the Sequim-Dungeness Valley Chamber of Commerce to operate the Visitors Information Center. The 2015 budget recommendations for the Chamber of Commerce Visitor Information Center, the Clallam County Economic Development Council and Human Services Contracts are consistent with amounts budgeted in 2014.

The recommended budget allocations for outside agencies are as follows:

Chamber of Commerce Visitor Information Center (lodging tax funds)	\$ 72,400
Clallam County Economic Development Council	\$ 5,000
Human Services Contracts	\$ 75,000

Civic Center Project

The two year (2014 – 2015) project costs for the construction of the Civic Center total \$13.81ml. We have forecast spending \$7.5ml in 2014 and the remaining \$6.3ml is budgeted in 2015. The two year funding sources for the completion of the project are:

Cash	\$ 371,000
General Obligation Bonds	\$10,439,000
Utility Revenue Bonds	<u>\$ 3,000,000</u>
Total	\$13,810,000

The City's related General Obligation debt (over 30 years) is \$660,000 annually. In 2015, because of the overlap of rent and debt service payments, funding sources are as follows:

Public Safety Sales Tax	\$230,000
REET transfer	\$135,000
Current office rent payments	\$ 52,000
General Fund Budget capacity	\$217,000
Interest and Beg. Fund Balance	<u>\$ 26,000</u>
	\$660,000

In future years, the City's General Obligation debt is to be paid for as follows:

Public Safety Sales Tax	\$230,000
REET transfer	75,000
Current office rent payments	200,000
General Fund Budget capacity	<u>155,000</u>
	\$660,000

The debt service related to the Utility Revenue Bonds (over 20 years) is \$225,000, annually. This "rent factor" is reflected within our Long Range Financial Plan, a recently accepted Utility Rate Study and the 2015 budget.

Key Policy Decisions

I have submitted the proposed 2015 Budget after substantial review and discussion. I am comfortable that the proposed budget balances the long-term needs of the City with the current economic reality and financial trends.

However, the City Council's role is to review my judgments and make the final policy decisions. I believe the key decisions that require your review and final decision are the following:

- My recommendation to increase the property tax levy by the allowed 1%;
- Proposed Water and Sewer rate and structure changes; including general facility charges;
- Proposed capital projects;

Conclusion

This budget addresses the City's highest priorities for service and capital needs for 2015 and will allow us to achieve our key goals. It completes the construction of a new Civic Center that will serve the community for several decades and it does support our efforts for continued financial stability in future years. It will, however, require us to "tighten our belt" for another year.

In presenting the budget to the Council, I would like to acknowledge and express appreciation to the City Leadership Team and staff for their willingness to submit realistic budget requests and develop alternatives to meet the Council priorities. I would also like to thank the Finance Department for its assistance in the physical preparation of this budget. In addition, I would like to thank the City Council for its courage and leadership in moving ahead on numerous issues and for its adoption of financial policies and prudent financial guidance that has resulted in the foundation for this proposed 2015 Budget.

Steven C. Burkett
City Manager



SEQUIM CITY COUNCIL 2014 - 2015

Sequim Vision Statement

Sequim will maintain its friendly, small-town lifestyle and overall high quality of life, as it continues to grow and develop as the cultural and civic heart of the Sequim-Dungeness Valley and as a center of commercial, recreational, educational, and medical services.

2014 - 2015 Council Goals and Priorities

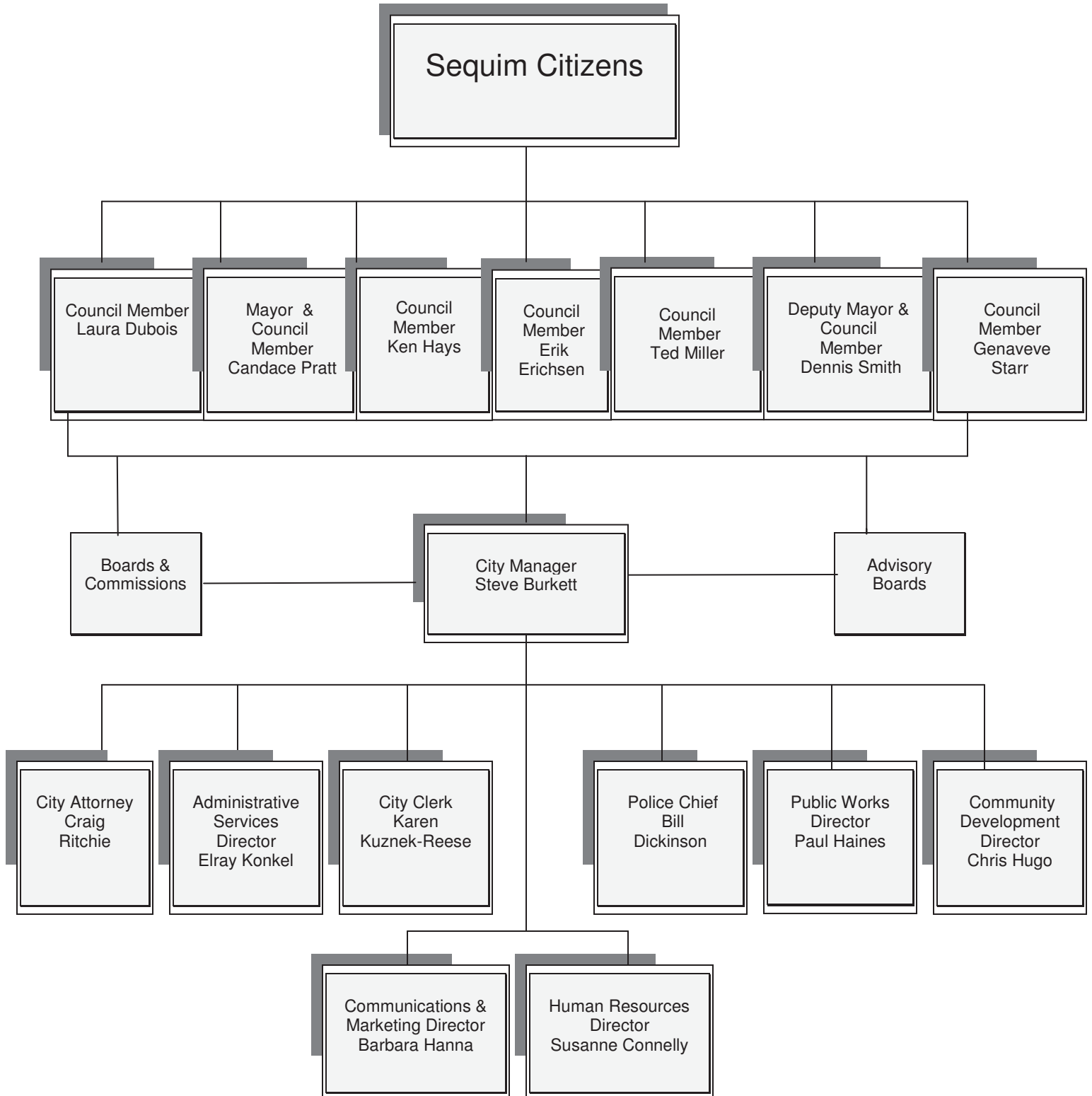
- ◆ Maintain and improve streets and sidewalks
- ◆ Adopt Comprehensive Plan Update
- ◆ Establish core values for economic development
- ◆ Construct New City Hall/Police Station on time, on budget
- ◆ Support a Community Solution for Guy Cole Center
- ◆ Provide policy guidance on private streets/water systems

Critical Success Factors

- ◆ Community Alliances and Partnerships
- ◆ Quality Services and Facilities
- ◆ Effective Community Relations and Communications
- ◆ Professional and Committed Workforce
- ◆ Innovative Leadership and Strategic Planning
- ◆ Healthy, Safe, and Vibrant Neighborhoods
- ◆ Economic Sustainability, Vitality, and Financial Stability
- ◆ Environmental Sustainability

CITY OF SEQUIM 2015 BUDGET

Organizational Chart
As of September 29, 2014



**CITY OF SEQUIM
2015 BUDGET
COUNCIL/MANAGER FORM OF GOVERNMENT**

COUNCIL

CANDACE PRATT (Mayor)

DENNIS SMITH (Deputy Mayor)

ERIK ERICHSEN

GENAVEVE STARR

KEN HAYS

TED MILLER

LAURA DUBOIS

CITY MANAGER

STEVE BURKETT

DEPARTMENT HEADS

ADMINISTRATIVE SERVICES DIRECTOR

ELRAY KONKEL

CHIEF OF POLICE

BILL DICKINSON

CITY ATTORNEY

CRAIG RITCHIE

CITY CLERK

KAREN KUZNEK-REESE

COMMUNICATIONS & MARKETING DIRECTOR

BARBARA HANNA

DIRECTOR OF COMMUNITY DEVELOPMENT

CHRIS HUGO

HUMAN RESOURCES DIRECTOR

SUSANNE CONNELLY

PUBLIC WORKS DIRECTOR

PAUL HAINES

MANAGER/BUDGET STAFF

ADMINISTRATIVE SERVICES

Deputy Admin Services Director / Risk Manager
Finance Manager
IT Manager
Payroll/HR Assistant
Accountant
Accounting Assistant

Sue Hagener
Connie Anderson
Steve Rose
Lajay Gove
Barbara D. Hannah
Ann Holgerson

CITY ADMINISTRATION

Assistant to the City Manager
Legal Assistant

Joseph Irvin
Erika Hamerquist

POLICE

Deputy Police Chief
Executive Admin Assistant

Sheri Crain
Victoria Ormand

PUBLIC WORKS

City Engineer
Streets Manager
Utilities Manager
PW Management Analyst

David Garlington
K. Mike Brandt
Pete Tjemsland
Sarah Van Ausdle

CATEGORY 2 CODE CITY, CLASSIFIED UTILITIES

**2010 OFFICIAL CENSUS 6,606
2014 OFM ESTIMATE 6,910**

2015 Budget Calendar

February	2013 City and TBD Financial Results and Policy Review Review of Financial Policies City Council Retreat Management Retreat
April-July	Water, Sewer, Transportation Master Plans Utility Rates and GFCs
July	Mid-Year Financial Review City Council and TBD Budget Calendars Budget Development Policy Review Personnel Summary
September	Review of 6-Year CIP Review of Capital Projects Review of Rates and Fees Proposed City Manager Budget delivered to City Council with Citywide Overview
October	Long Range Financial Plan and Budget Impacts Proposed City Manager Budget - Review of Departments
October	Proposed City Manager Budget – Review of Capital Projects
November	Public Hearings on Revenue Sources, Rates & Fees, Property Tax Levy and Proposed Budget
November	Public Hearings on Revenue Sources, Rates & Fees, Property Tax Levy and Proposed Budget
November	Adopt 2015 Budget

Budget Calendar for Preparation of 2015 Budgets in First (Under 300,000), Second, and Fourth Class Cities, Code Cities, and Towns

Budget requirements for first (under 300,000) and second class municipalities, and towns are listed in chapter [35.33 RCW](#), as amended, and for cities under the Optional Municipal Code in chapter [35A.33 RCW](#), as amended. [Chapter 35.32A RCW](#) contains the budget law for cities over 300,000 population (Seattle).

[Chapters 35.34 RCW](#) and [35A.34](#) contain the provisions for a biennial budget. Thus far only a few cities are using the two-year budget process. All the dates are the same.

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2014 Date
1. Request by clerk to all department heads and those in charge of municipal offices to prepare detailed estimates of revenues and expenditures for next fiscal year (calendar year). RCW 35.33.031 & 35A.33.030 .	By second Monday in September. ¹	September 8
2. Estimates are to be filed with the clerk. RCW 35.33.031 & 35A.33.030 .	By fourth Monday in September.	September 22
3. Estimates are presented to the chief administrative officer (CAO) for modifications, revisions or additions. Clerk must submit to CAO proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed. RCW 35.33.051 & 35A.33.050	On or before the first business day in the third month prior to beginning of the fiscal year.	October 1
4. CAO provides the legislative body with current information on estimates of revenues from all sources as adopted in the budget for the current year. CAO also provides the legislative body with the clerk's proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each such program is proposed to be financed. RCW 35.33.135 & 35A.33.135 .	No later than the first Monday in October.	October 6
5. The legislative body must hold a public hearing on revenue sources for the coming year's budget, including consideration of possible increases in property tax revenues. RCW 84.55.120 . After the hearing, a city may choose to pass an ordinance at the same meeting authorizing a property tax increase in terms of dollars and percent to comply with Referendum 47.	Before legislative body votes on property tax levy. Deadlines for levy setting are in item 8 below.	November 24
6. CAO prepares preliminary budget and budget message ² and files with the city legislative body and clerk. RCW 35.33.055 & 35A.33.052	At least 60 days before the ensuing fiscal year.	November 3

Major Steps in Budget Preparation	State Law Time Limitations	Actual 2014 Date
7. Clerk publishes notice that the preliminary budget has been filed and publishes a notice of public hearing on final budget once a week for two consecutive weeks. RCW 35.33.061 & RCW 35A.33.060 .	No later than the first two weeks in November.	November 3 through 17
8. Setting property tax levies. Ch. 52, Laws of 2005, HB 1048 and RCW 84.52.070 .	November 30 for <i>all</i> cities and towns.	
9. The legislative body, or a committee thereof, must schedule hearings on the budget or parts of the budget and may require the presence of department heads. RCW 35.33.057 & 35A.33.055 .	Prior to the final hearing.	November 3 through 28 (suggested)
10. Copies of proposed (preliminary) budget made available to the public. RCW 35.33.055 & 35A.33.052 .	No later than six weeks before January 1.	November 19
11. Final hearing on proposed budget. RCW 35.33.071 & 35A.33.070 .	On or <u>before</u> first Monday of December, and may be continued from day-to-day but no later than the 25th day prior to next fiscal year (December 7).	November 24
12. Adoption of budget for 2015. RCW 35.33.075 & 35A.33.075 .	Following the public hearing and prior to beginning of the ensuing fiscal year.	November 24
13. Copies of final budget to be transmitted to the State Auditor's Office and to MRSC.		After adoption
<p>¹ RCW 35.33.031 actually provides "on or before the second Monday of the fourth month," etc. Therefore, pursuant to the state budget law, that step (and certain others) could be taken before the dates listed here. See also, RCW 35A.33.030. ² RCW 35.33.057 and RCW 35A.33.055 specify that the budget message must contain the following:</p> <ol style="list-style-type: none"> 1. An explanation of the budget document; 2. An outline of the recommended financial policies and programs of the city for the ensuing fiscal year; 3. A statement of the relation of the recommended appropriation to such policies and programs; 4. A statement of the reason for salient changes from the previous year in appropriation and revenue items; 5. An explanation for any recommended major changes in financial policy. 		

<input checked="" type="checkbox"/> ADOPTED BY COUNCIL: FEB 25, 2013	EFFECTIVE DATE: FEB 25, 2013
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I. PURPOSE

The purpose of this policy is to help guide the budget development process. There may be differences between this policy and the budget based on the uniqueness of each year's budget.

The City allocates scarce resources to programs and services through the budget process. The budget process is more than balancing revenues and expenditures one year (two year if biennium) at a time. In addition to being a short-term operational plan, it is the primary means for implementing the City's strategic plan. The budget authorizes the level of City services for the year (or biennium), as defined by the City's goals, priorities and objectives and adjusted for the constraints identified in the long range financial plan.

The link between the strategic plan, long range financial plan and the budget can be challenging. Strategic planning sets overall direction for the City, defining what is to be accomplished through its use of resources by identifying the City's goals, priorities and objectives. The long range financial plan positions the City to remain effective over the long term.

II. POLICY – GENERAL

1. Budget at Fund Level: Budget adoption by the City Council shall be at the fund level. Any changes in appropriations at fund level require City Council approval.
2. Balance Ongoing Revenues with Ongoing Expenses: Current revenues, including unencumbered fund balances should be sufficient to support current expenditures. Although Fund Balance is considered revenue, its use in balancing the budget should be restricted to special situations, such as one-time expenditures or carry-over of prior year funded project (see Reserves/Fund Balance Policy for more guidance).
3. City Council Goals Identified in Annual Workplan: The City Council identifies specific goals as part of the City's workplan. Departmental budgets should include adequate resources to accomplish those goals in the expected timeframes.
4. Municipal Service Levels: The City Council will establish municipal service levels and priorities prior to and during the development of the preliminary budget. The following will be taken into consideration to determine the proper levels of service:

- a) Maintain Quality Service Programs: If expenditure reductions are necessary as a result of changing economic status, selective service elimination is preferable to across the board cuts which can result in poor or marginal quality programs.
- b) New Programs and Services: Adding new programs and services that require additional resources should be limited to the extent that they can be reasonably funded over the near-to-long-term given the current revenue stream.
 - i) Funding New vs Existing Programs: If new sustainable funding is not available, then new or enhanced services will compete directly with maintaining existing programs in determining the appropriate allocation of resources. This will provide the best mix of services to citizens and keep pace with the changing needs of the community.
 - ii) Adding Fee for Service Revenues: Where practical, new services that provide private benefit should be supported by new fees instead of increasing general City taxes.
 - iii) Programs with Dedicated Funding: Programs that are funded through a dedicated revenue source (i.e., grants or other non-tax revenue), that meet the goals of the City Council, will receive priority consideration, as long as ongoing funding is addressed.
- 5. Cost Allocation: The full cost of providing central support services shall be allocated to other funds and capital projects, and if appropriate to grants and specific programs. Indirect costs are calculated for General Fund Departments, but are not allocated. These indirect costs will be considered in evaluating the total cost of programs.
 - a) Meet Federal Indirect Rate Requirements: The cost allocation plan should meet Federal requirements (OMB Circular A-87) to allow for indirect cost recovery on Federal and State grants.

II. POLICY – REVENUES

- 1. Baseline Revenues: Significant revenues that contain variable components related to economic activity, such as development, or other one-time, non-recurring or unusual items should be identified in order to determine baseline revenues. The variable component of revenues should not be used for ongoing operating programs and services.
 - a) Property Tax: Tends to be stable; contains an unpredictable component for new construction and annexation; can be impacted by zoning changes
 - i) Variable Component: new construction and annexations in year added to the tax roll (tax is based on levy rate instead of 1% increase)

- b) Sales Tax: Minimum base tends to be stable; contains an unpredictable component related to economic changes, particularly the “boom and bust” housing cycles
 - i) Variable Component: consider construction sales tax above 10 year average; other sales tax above 3% growth; may need to adjust based on economic conditions or changes in tax base such as new stores or the closing of stores
 - c) Utility (B&O) Tax: Tends to be stable; subject to changes in utility rates, usage, conservation, regulations
 - i) Variable Component: not significant; no exclusions unless specific situations warrant an exclusion
 - d) Interfund Service Charges: Minimum base tends to be stable; contains an unpredictable component related to capital projects
 - i) Variable Component: capital projects above 5 year average; may need to adjust based on unusual large projects or economic conditions
 - e) Development Related Fees: Minimum base is difficult to determine, large unpredictable component related to “boom and bust” housing cycles
 - i) Variable Component: consider amounts above 10 year average or 3% growth based on economic conditions
 - f) Interest Earnings: Interest on minimum fund balance may be included for baseline revenues.
 - g) Potential New Revenues: Proposed new revenues that are early in the Council review process are typically not included in the budget. Public input may change the process and revenues may be difficult to quantify. If Council provides a quantifiable commitment to adopt new revenues they could be included in the budget.
 - i) Unknown Component: excluded unless Council provides quantifiable commitment
2. Limit Use of One-Time Revenues: Revenues that are not predictable should be identified and should not be used for ongoing operating program and services.
- a) Types of One-time Revenues: This includes significant revenues from sales of assets, bond refunding savings, infrequent intergovernmental revenues, grants, and so forth. It also includes the variable component of taxes and other revenues.
 - b) Use of One-Time Revenues: The use of significant one-time revenues should be set aside in reserves or restricted to non-recurring expenses,

such as, research/analysis projects, expenses caused by transition, startup costs, capital projects, debt retirement, and so forth.

3. Revenue Diversification: The City will strive for a diversified mix of revenues to handle fluctuations in revenues and to better distribute the cost of providing services.
 - a) Analysis Factors: When evaluating diversification, the following factors should be considered:
 - i) Balance amongst taxpayers and ability to diversify tax base such as changes in zoning
 - ii) Sensitivity of revenues to changes in economic cycles and rates
 - iii) Fairness of the tax or fee
 - iv) Regulations or changes in state shared revenue distributions
 - v) Impact on economic growth
 - vi) Other, such as administrative aspects
 - b) Taxes Should be Balanced: When City taxes are changed (increased, decreased, extended) the following factors should be considered:
 - i) Stability of tax source over its expected life; suitability for pledge against future debt if that is part of the intent
 - ii) Spread of tax burden throughout the City's tax base through a broad array of taxes
 - iii) Tax impact to both residential and business taxpayers and its affect on future growth
 - iv) Investigation of mitigation for inequities or hardships, such as low-income deferrals, rebates or exemptions
4. Unrestricted Revenues Should Remain Unrestricted: Unless otherwise stated specifically by City Council, unrestricted resources should not be earmarked for specific purpose in the General Fund. This will preserve the ability of the Council to determine the best use of available resources to meet changing service requirements.
5. Interfund Services (Cost Allocations): Indirect costs include general management, facility and equipment costs, and operational costs that are pooled. These costs are accounted for in central support service centers and should be fully allocated to funds that benefit from the services, such as Enterprise Funds, Capital Projects and selective Special Revenue Funds or specific programs where appropriate. Grant applications should include indirect costs where allowed. Indirect costs of General Fund operating units will be calculated for use in evaluating program costs but will not be allocated.
6. Fee for Service Revenues: As much as reasonably possible, City services that provide private benefit or service limited interests should be supported by

fees and charges in order to provide maximum flexibility in use of general City taxes to meet the cost of services of broader public benefit.

- a) Recover Full Cost: Fees should be set to recover full costs, including all direct costs and indirect costs (capital costs, department overhead and city-wide overhead (cost allocations)).
 - b) Justify Subsidy: Charging less than full costs results in using general city taxes to subsidize the cost of the service. A subsidy must be justified, and may be considered if it meets other City interests and objectives, such as remaining competitive. Intentional subsidies will be documented and periodically reviewed with City Council.
 - c) Cost Studies: Departments that impose fee for service charges should periodically prepare and update cost-of-service studies. These studies may be performed and documented internally. An external consultant may be required for complex studies or where fee surveys are not available or where fees may be contested.
 - d) Human Needs Type Services: Exception may be considered for human needs type services to persons with limited ability to pay.
7. Intergovernmental Revenues: The City should take advantage of opportunities to enhance service delivery through intergovernmental cooperation, shared revenues and grants. However, this revenue should be treated as temporary, uncertain or unpredictable revenue.
- a) Not for Ongoing Basic Services: Typically intergovernmental revenues and grants will not be used to fund ongoing basic service needs. If grants are for new, enhanced or discretionary services, then the service may need to be reduced or eliminated when the funding ends. Before accepting a grant, consideration should include not only the cost/benefits over the life of the grant, but the cost of interruption in service when the grant ends.
 - b) Capital Projects Consistent with Plan: Grants for capital improvements should be for priority projects or projects consistent with the capital improvement plan. The project should consider resources to support ongoing maintenance, operating, and replacement costs. The grant application should attempt to recover all costs, including ongoing maintenance, operating costs and replacement costs, as well as indirect costs. If a city match is required, this should be reviewed in light of other competing projects.

II. POLICY – EXPENSES

1. Baseline Expenses: Significant expenses that contain variable components related to economic activity, such as development, and other one-time or unusual items, should be identified in order to determine baseline expenses. The variable component of expenses may be funded by associated variable revenue or by one-time revenues and reserves (see Reserves/Fund Balance Policy).
 - a) Include Maintaining Facilities and Equipment: Maintenance of facilities, technology infrastructure, operating equipment and vehicles, as well as the planned replacement of such assets should be included as baseline operating expenses. The amount included as baseline operating expenses will be determined by the Capital Improvement Plan Policy.
 - i) Lowest Life Cycle Costs: When practical, resources should be allocated for selective preventative investments that can be made to avoid even larger costs in the future.
 - ii) Funding Continuous Replacement: The use of short-term financing or lease/purchase arrangements should be minimized because of the ongoing requirement for operating equipment. (See Capital Improvement Plan Policy, Debt Management Policy.) The amount necessary to fund equipment reserves will take into account both financing and transfers to Equipment Reserves.
 - b) Include Interfund Operating Transfers: Transfers to operations, such as Street Unrestricted, should be included as baseline operating expenses if General Fund is a significant revenue source for another operating fund.
 - c) Exclude Interfund Capital and Reserve Transfers: Transfers for capital projects or to replenish reserve funds should be excluded from baseline operating expenses and would be funded by one-time or excess revenues.
 - d) Exclude Community Investments: Discretionary investments for community/public benefit are excluded from baseline operating expenses. Funding from one-time revenues would be decreased if total baseline revenues fall or baseline expenses increase by 5% or more.
 - i) Funding Level Health & Human Services: The amount of funds available will fluctuate based on the City's financial situation. Council may want to consider a separate funding policy based on a percent of

sales tax revenues, such as 2%, or an amount per capita, which would be reviewed along with the funding criteria.

- ii) Funding Level Community Service Contracts: The amount of funds available will fluctuate based on the City's financial situation and service needs. Funding will be included in the City Manager's proposed Budget based on criteria for similar expenses. They will be included if they address services or facilities that support the city's mission and are a high priority compared to other options and proposed expenditures.

2. Personnel: This is the most significant operating expense.

- a) Competitive Compensation: Salaries and benefits should be comparable to cities and private sector employers that are within the same labor market and with other cities or private sector employers that offer comparable quality services in order to attract and retain high quality staff.
 - b) Union Contract Negotiations: If a collective bargaining agreement is, or will be, under negotiations, then a specific amount will not be included in the budget for potential wage adjustments resulting from the negotiation, other than continuing the basis for a COLA adjustment, except a negative COLA will not be budgeted. This is to protect the City from any claims of not "bargaining in good faith". Funding for unknown contract terms must be considered in balancing ongoing revenues with ongoing expenses.
 - c) Fluctuation in Staffing Requirements: Additional personnel resources needed for large projects or responding to a "housing" cycle boom may be retained on a temporary, term (non-permanent employee) or contract basis.
3. Technology Investments that Forestall Adding Permanent Staff: Recognizing that personnel related expenditures represent the largest portion of the City's budget, methods to increase efficiency and effectiveness of the delivery of City services through technology improvements should receive priority funding if it can forestall the addition of permanent staff.
4. Contingency: The budgeting for contingencies will be separately identified within each fund. An amount for General Fund contingencies will consider amounts across all departments in which only 50% of the costs are included, since all contingencies are not expected to occur.

III. PROCEDURE

1. City Council: The City Council has final responsibility for approving the annual Operating Budget.
2. City Manager: The City Manager oversees the budget development process and proposes the preliminary budget to City Council.
3. Departments: The Department directors under the guidance of the City Manager are responsible for proposing programs, recommending funding levels, and formulating budget proposals for implementing service programs in accordance with established goals and directives.
4. Finance: The Finance Department is responsible for coordinating the overall preparation and administration of the City's budget in compliance with applicable State of Washington statutes governing local government budgeting practices.
 - a. The Finance Department provides revenue budget estimates, assists department staff in identifying budget problems and formulating alternative solutions, and prepares and distributes the final budget document.
 - b. The operating budget is classified and segregated according to a standard classification of accounts as prescribed by the State Auditor.
5. Public Hearings: The Council will hold public hearings as required and approve operating and capital budgets prior to the end of the fiscal year in accordance with State law.
6. Quarterly Reporting: The Finance Department will maintain a system for monitoring the City's budget performance. This system will provide the City Council with quarterly reports regarding fund level resource collections and department level expenditures.
7. Budget Amendments: Semi-annually budget amendments will be presented in order to address unanticipated needs, emergencies, or compliance with State of Washington budgetary statutes. Budget amendments requiring City Council approval will occur through a process coordinated by the Finance Department. Significant financial issues that need to be addressed between quarterly reports will be provided to Council as warranted.

IV. REFERENCESSequim Municipal Code or Resolutions

- Resolution R-2009-15 Establishing Criteria for Grant Funding to Agencies through United Way (Health and Human Services Funding Criteria)

Revised Code of Washington

RCW 35A.33 provides the authority and the requirement for a code city to adopt a comprehensive annual budget prior to the start of each fiscal year.

- RCW 35A.33 Budgets in code cities
- RCW 35A.34 Biennial budgets

State Auditor's Office:

- Budget, Accounting and Reporting System (BARS) Manual, Part 2 Budgeting Chapter 1 – 3
- Small City Handbook, Section E - Budgeting

Professional Groups:

- National Advisory Council on State and Local Budgeting (NACSLB)
 - Recommended Budget Practices Element 4 Adopt Financial Policies



Financial Policies Fund Balance & Reserve Policy for General Fund and Street Operations, Special Reserves and Utility Funds

<input type="checkbox"/> ADOPTED BY COUNCIL: FEBRUARY 25, 2013	EFFECTIVE DATE: FEBRUARY 25, 2013
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I. PURPOSE

The purpose of this policy is to provide a targeted range for fund balance and reserves to help position the City and its functional units to respond to economic fluctuations, prepare for expected and unexpected liabilities, and to take advantage of economic opportunities. This policy is intended to establish an understanding of the proper level and use of those reserves for the City of Sequim.

Adequate levels of fund balance or reserves are essential to protect against temporary revenue shortfalls and helps to ensure stable taxes and fees. It provides resources criteria crucial in long-term financial planning. The value of strong fund balances and reserves needs to be balanced with pressures from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

For the City of Sequim, fund balance equals cash (which includes cash and investments held by the City) as the city reports and budgets financial activity on a cash basis

The City of Sequim follows BARS (the Budgeting, Accounting and Reporting System) promulgated by the State of Washington which includes the prescribed uniform charts of accounts, accounting and budgeting policies, guidance for preparing financial statements and instructions for preparing supplemental year end schedules (Revised Code of Washington Section 43.09.230) for local governments.

Fund Balance and Cash and/or Investments is defined in the BARS Manual as follows:

308.10 RESERVED

The amounts of cash and investments not available for spending at the beginning of the year due to the restrictions imposed on them by external parties (e.g., grantors, creditors, etc.) and/or due to internal commitments. Internally committed resources are resources with limitations imposed by the highest level of government (board of commissioners, city council, board of directors, board of supervisors, etc.) through a formal action (ordinance, resolution) that require a similar formal action on the same level to remove them. Limitations resulting from intended use (informal action) by either legislators or managers are not sufficient to classify the resources as reserved. These resources should be reported as unreserved.

308.80 UNRESERVED

The amounts of cash and investments without any limitations on their use and resources with informal limitations placed on them by either legislators or managers.



Financial Policies

Fund Balance & Reserve Policy for General Fund and Street Operations, Special Reserves and Utility Funds

The City of Sequim has the following fund structure:

General Fund and Streets Unrestricted Fund (funds available for general government operations)

Capital Funds

Equipment Reserve (funds set aside and available for General Government equipment replacement)

Facilities (funds set aside for City Hall and other facility related capital projects)

Enterprise Funds

Water Unrestricted (restricted to Water Operations)

Water Restricted (restricted to Water Capital, Debt Service and Equipment Replacement)

Sewer Unrestricted (restricted to Sewer Operations)

Sewer Restricted (restricted to Sewer Capital, Debt Service and Equipment Replacement)

Special Revenue Funds (restricted by law or City Ordinances, no targeted reserves)

Street Restricted, Lodging Tax Hotel / Motel, Criminal Justice, Police Restricted

Police Asset Seizure, Parks Restricted, Real Estate Excise Tax, Gifting & Donations

Trust, Agency & Permanent Funds (funds not available for City services)

Police Expendable Trust, Construction Deposit, Intergovernmental Agency Fund

Haller Park Fund Permanent

City Targeted Reserve Funds: The City uses the following classifications:.

1. **Minimum Fund Balance Reserves** : Provides a financial cushion for revenue fluctuations and cyclical activity through General Operations.

a) Targeted Fund Balance

	Min	Max
General Fund and Streets	15% ongoing revenues	20% ongoing revenues
Water Unrestricted	3 months operating expenditures	5 months operating expenditures
Sewer Unrestricted	3 months operating expenditures	5 months operating expenditures

Financial Policies

Fund Balance & Reserve Policy for General Fund and Street Operations, Special Reserves and Utility Funds

2. **Economic Uncertainty Reserves:** Provides a financial cushion against unanticipated adverse financial or economic circumstances, emergencies, or litigation.

- a) **Targeted Reserve:** The maximum fund balance should take into consideration level of volatile revenues, such as Development related revenues (Building Permits, Inspections, Plan Check Fees, other Development Fees) and Sales Tax.

	Min	Max
General Fund and Streets	1% ongoing revenues	3% ongoing revenues
Water Unrestricted	1% ongoing revenues	3% ongoing revenues
Sewer Unrestricted	1% ongoing revenues	3% ongoing revenues

3. **Future Liabilities Reserves:** These amounts are set aside for a specified purpose, related to an accrued obligation or to self-insure for a future obligation. This should include reserves for unemployment self-insurance or a portion of accrued compensation (paid time off and sick leave) that is paid to an employee upon separation from employment.

- a) **Targeted Reserve:** The amount necessary to mitigate a specific future expense is based on a historical pattern or other appropriate measure. Unemployment could be based on +/- 10% of the estimated annual payment to the state, or 1% of wages, or other appropriate measure. Accrued compensation is based on historical pattern or other appropriate measure.

	Min	Max
General Fund and Streets	1% ongoing revenues	3% ongoing revenues
Water Unrestricted	1% ongoing revenues	3% ongoing revenues
Sewer Unrestricted	1% ongoing revenues	3% ongoing revenues

4. **Facilities and Equipment Reserve Funds:** Established to purchase, replace or refurbish City facilities and operating equipment such as computers, copiers, operating equipment and vehicles (see Capital Improvement Plan policy).

- a) **Targeted Reserve Fund Balance:** Maintained at a level sufficient to meet scheduled equipment replacement so as to sustain an acceptable level of services.

Financial Policies

Fund Balance & Reserve Policy for General Fund and Street Operations, Special Reserves and Utility Funds

	Min	Max
Equipment Replacement (General Government)	2.5 years scheduled replacement	6 years scheduled replacement
City Facilities	2.5 years scheduled replacement	6 years scheduled replacement
Water Restricted	2.5 years scheduled replacement	6 years scheduled replacement
Sewer Restricted	2.5 years scheduled replacement	6 years scheduled replacement

II. PROCEDURES

1. Ongoing Revenues and Operating Expenditures: Reflects the ongoing operations and excludes one-time, nonrecurring and capital items. (See Budget Development Policy.)
2. Addition to Fund Balance/Reserves: Typically provided by surplus from prior years, one-time revenues and revenues in excess of operating expenditures.
3. Replenishment of Fund Balance/Reserves: Where a deficit causes a fund balance to be reduced contributions will be made over a three to five year period until targeted level is attained using one-time revenues first and surplus next.
4. Minimum Fund Balance: Replenishing the fund balance to the minimum level will be the first priority use of excess year-end resources.
5. Budgeted Fund Balance and Targeted Reserves: All reserves will be presented in the budget and will be compared to the adopted financial policy. If the resulting targeted reserves fall below policy a plan will be presented to bring the fund balance into compliance.
6. Periodic Reporting: The Finance Department will provide the City Council with periodic reports (quarterly) regarding fund balance and targeted reserves. for compliance to policy.